

WANNA BE A MILLIONAIRE?

STEP 6: BUYING AUTOMOBILES WISELY

TO BUY OR LEASE... The Great Debate



BUYING A CAR How should you pay?

Buying a car is a huge investment. And, with all the personal and financial commitment involved, it's not something you want to rush into. Making a decision you feel comfortable with demands foresight. The information in this handout will help you sort through the options and make the smartest decision for your specific situation.

Loan, Lease, or Cash?

When it comes to purchasing an automobile, there are three options—loan, lease, or cash. Read through the information below to learn what option might be right for you.

Loan. When you take out a car loan, a bank or other lender advances you the money to pay for the car. Over the course of the next three to five years, you'll make monthly payments to repay the principal and the interest on the loan. The key is to stay current on your loan payments—if you fall behind, the lender can repossess the car and keep all of the payments you've made.

Loan Pros:

- Ability to pay off the loan at any time, yet fully own the car
- The right to sell the car
- Freedom to drive as many miles as you want

Loan Cons:

- Higher down payment
- Higher monthly payments
- If the car is stolen or totaled, you still must pay off the loan in full

Lease. When you lease, you never really buy the car. You make monthly payments throughout the lease period—usually three to five years—which gives you the right to use the car. When the lease period ends, you can return the car, buy it back from the leasing company for the price specified in the agreement, or extend the lease a month at a time.

Lease Pros:

- Lower down payment
- Lower monthly payments
- The option of buying the car, returning the car, or extending the lease when the period has ended

Lease Cons:

- No ownership or right to sell the car during the lease period
- Mileage limits
- Committed to paying the full lease amount

Break It Down

The following feature provides a breakdown of costs for comparing a loan, lease, or cash payment. The example here is based on the following:

- A car with a sticker price of \$18,000
- A three-year lease or loan period
- A local sales tax of 7%
- A 10% loan rate
- An 8% return on investment

Loan Shark

Here's how much you'll pay if you buy the car with a loan:

\$ 2,500	Down payment
+ \$ 1,260	Sales Tax
+ \$20,126	36 total monthly payments of \$559
= \$23,886	Total cost*

Lease Freak

Here's how much you'll pay if you lease the car:

\$ 400	Leasing fee
+ \$ 317	Prepayment
+ \$11,412	36 total monthly payments of \$317
= \$12,129	Total Cost

Cash Cow

Here's how much you'll pay if you pay cash for the car:

\$18,000	Purchase price
+ \$ 1,260	Sales tax
= \$19,260	Cost
+ \$ 4,675	Loss of investment interest (purchase price \$18,000 x 8% x 3 years)
= \$23,935	Total cost*

**Important note: With the loan and cash options, the automobile is purchased and can therefore be resold—you pay more, but you own it.*

Cash. If you have enough money, paying for the car in cash might be a good idea. However, if you do pay in cash, realize that you've purchased a depreciable asset—something that will be worth less tomorrow than it is today. You could have instead invested that cash and watched it earn interest rather than depreciate.

Cash Pros:

- No loan interest
- Instant ownership and right to sell

Cash Cons:

- Loss of investment interest
- Very large sum of money to part with at once

You Decide

Obviously, the leasing option looks quite appealing, but keep in mind the limitations of leasing. Getting a car

loan and paying in cash have some similarities, but if you can afford to pay cash, you'll still want to ask yourself whether you want to part with that much money all at once? You'll want to carefully think through all the options before you commit to buying. Check out the action steps below to learn what you can do.

Action Steps

Decide what you NEED. Look at the car you have. If you can stand it, feel safe in it, and don't owe anything on it, that's probably your best bet for saving money! Generally, the longer you keep your car, the lower the cost per mile to own and operate it.

Study the purchasing methods. If you decide you really do need to purchase an automobile, you'll want to do an in-depth study of all three purchasing methods. Carefully evaluate all the options before you decide how to pay—one method is likely the best choice for you.

Get trade savvy. If you're trading in your car for a new one, make sure you know how much it's worth before you attempt the trade. The Kelley Blue Book is a valuable resource and time-honored guide for determining the value of new and used automobiles. Get a recent copy of the Kelley Blue Book or visit their website at www.kbb.com to find out what your vehicle is worth before you sell or trade.

Pick the car. Before you go any farther you'll have to narrow down the automobiles you're interested in purchasing. Obviously you'll want to pick one that's appealing and looks good, but don't forget to consider the practical aspects as well.

Financial Lifelines

Where to go for more info

Web Sites That Can Help

Funny Stories

www.interactivefeatures.com/funny.html

Money Magazine Website

www.money.com

Kelley Blue Book Online

www.kbb.com

Books That Can Help

The Wall Street Journal Lifetime Guide to Money: Everything You Need to Know About Managing your Finances—For Every Stage of Life by C. Frederic

Wiegold (Editor), The Wall Street Journal's Personal Finance Staff
Kelley Blue Book

Brochures and Pamphlets That Can Help

Planning Your Estate

Federal Consumer Information Center

Title Number: 581G

To order call 1-888-878-3256 or go to www.pueblo.gsa.gov

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QUESTION 6:

Which of the following automobiles was marketed in Puerto Rico in the 1970's with little to no success?

- ☐ **A) Volkswagen Beetle**
- ☐ **B) Chevrolet Nova**
- ☐ **C) Pontiac Grand Prix**
- ☐ **D) Ford Thunderbird**

*New car, caviar, four-star daydream,
Think I'll buy me a football team."
—Pink Floyd*

NAME